

## POLICIES -- A TOOL FOR EFFECTIVE COOPERATIVE DIRECTORS

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Current policies are necessary for the employees, manager and board of directors of a cooperative to work together to serve their members.

For a board of directors of a cooperative to effectively discharge its responsibilities, it should be devoting a large portion of each board meeting to policy formulation, policy evaluation and policy implication. Successful cooperative managers formulate policies for the day to day operation of the cooperative that will guide all employees in making decisions within the limits of the policies established by the board of directors.

Policies are statements in general terms which give direction to plans and operations. Some boards of directors are kept so busy reacting to situations that they never have time to develop policies to give direction to their cooperatives and thus these directors may never really be in control of their cooperatives.

The law under which cooperatives are incorporated gives the authority to manage the cooperative firm to the board of directors. The board usually delegates some of their authority to a manager. Even if the board of directors passes the authority for policy formulation on to hired management, the elected board of directors of the cooperative is still responsible for the policies under which the cooperative operates,

### What are Policies?

• Policies are generalized statements to be used as guides to making decisions in recurring situations --

- Without consulting a superior
- With assurance that decisions will be consistent and move toward objectives

• The purpose of policies is to guide thinking in decision making by marking off areas of discretion.

- Policies are statements in general terms which serve as guides for and give direction to plans.

- Policies are statements in general terms which serve as guides to consistent decisions in recurring situations. Policies are a "map" that directors, management, employees and owners can follow to reach the goals of the cooperative.

- Board policies permit managers and employees of cooperatives to solve problems which they would otherwise have to refer to a higher authority.

- Policies assure consistency in decisions that will be made in the future by the cooperative's employees, manager and board.

- Policies make it possible for cooperative employees, manager and board to work together to serve their members.

- Board policies are intended to guide and direct managers and to make it possible for everyone in the cooperative to work together toward its objective in accordance with the cooperative's established viewpoints.

- Policies are a part of the function of planning. It is a basic responsibility of a cooperative director to understand how each policy originated, what its purpose is, how it is to be administered, and to determine if the application of the policy is producing the intended results.

- Policies are not rules. The board may adopt a rule such as: "No employee may speculate in any commodity market." This rule is specific. On some occasions the rules may be specific about the action to be taken if the rule is broken: "Any employee who speculates with the cooperative's funds or products will be dismissed at once." Rules serve as guides but allow no discretion in their application.

By devoting their time and efforts to the formulation of the cooperative's policies, the board of directors enables the cooperative manager to take action and solve problems that would otherwise have to be delayed until referred to the cooperative's board of directors.

#### The Board Has Responsibility

Ultimately, the board of directors is responsible for determining all the cooperative's policies, and no other group or individual may establish the cooperative's policies unless the authority to do so has been delegated either specifically or by implication by the board of directors. Managers at all levels within a cooperative are usually delegated authority to formulate policies within their own departments or sections, particularly policies that concern their day to day work. Policies formulated for a department by a department manager must be in harmony with the policies established by the board of directors for the cooperative.

In a cooperative, the manager is expected to make a major input into the policies formulated by the board of directors. The Ohio law requires that most cooperative directors be farmers and the demands of a successful farm operation often limit the time farmer-directors can give to the collecting of facts and researching necessary for policy formulation. This is not, however, an acceptable excuse for a farmer-director to neglect the reading, study and research necessary to discharge his responsibilities as a director of a cooperative.

In an agricultural cooperative, the general manager often advises and assists the board in its policy-making activity. The cooperative manager may take the initiative by formulating and recommending to the board certain policies which he feels are necessary. In these situations the manager formulates the policy and the board, after careful consideration and discussion, will accept it, reject it or modify it.

Most cooperative boards of directors will delegate to the general manager the responsibility for formulating policies in certain areas, and the manager may in turn give some of this authority to his subordinates. The board of directors of the cooperative holds the ultimate policy making responsibility for the cooperative and, therefore, all policies established by the manager or his subordinates must be consistent with those established by the board of directors.

All the current policies of the cooperative should be available to board members and employees at all times, preferably in a policy manual.

#### What Policies Deal With

Policies provide the guideposts which management needs to enable it to work consistently and efficiently toward the objective of the cooperative.

Almost every phase of the cooperative's business should be covered with a policy. The board of directors, for example, should establish a policy on the procurement of merchandise. For example, assume that the cooperative is a local supply cooperative that together with other local cooperatives owns a regional and the regional together with other regional cooperatives owns a fertilizer plant that supplies fertilizer for all the cooperatives that own it. Having taken into consideration the farmer-members' money that the local cooperative has invested in the cooperative fertilizer plant and distribution system, the board may adopt a policy that directs the manager to handle the co-op's own fertilizer. The manager would know from the policy if and when he could purchase fertilizer from a competitor without consulting the board of directors. If there were no policy on the local cooperative's use of their own fertilizer and the manager stocks up on a competitor's fertilizer, there may arise friction between the manager and the board because the board of directors has neglected its responsibility to prepare guidelines in the form of a policy for the manager. Policies establish acceptable action before the action is taken.

Policies deal with managerial functions -- PODCC (Planning, Organizing, Directing, Coordinating and Controlling).

Here are some suggested areas for starting a new policy manual:

A few of the phases of the cooperative's business will not be covered by policy because the decisions may not be recurring. Accounting decisions, for example, are seldom formulated into policies. A decision to use the "life" method of inventory control or straight line method of apportioning depreciation is a technical one and not made frequently enough to justify establishing a policy to cover it. Other actions that would not be covered by policies include buying a piece of land, building a new warehouse or acquiring another business. The function of policies is to permit recurring decisions to be made consistently at the lowest possible level, thus conserving the time and energy of management at all levels. By devoting sufficient time at regular board meetings to formulate policies, board members can make decisions based on facts as opposed to waiting until a crisis arrives to make a decision that is often based on emotions.

Where does the board of directors of a cooperative that does not have a policy manual or a board that has never formalized a policy begin when they decide to establish, renew and issue policies systematically?

Certain policies are mandatory. These are the policies that enlarge and interpret government regulations and the provisions of the charter and bylaws. (EPA, OSHA, FDA, Fair Employment, Truth in Lending, etc.) All policies must be written to keep the action in compliance with government rules and regulations.

Policy statements can frequently be found in the cooperative's records, advertisements and letters or reports issued to inform the public or cooperative members and employees of the cooperative's program or action. (For example, prices will be competitive, or a one and one-half percent carrying charge will be made on the total dollar amount of all accounts over 30 days old on the first day of each month.)

Past actions of the firm are also a source of policies. "We've always done it this way," constitutes a typical and sometimes a useful basis for policy formulation, provided mere tradition has not been allowed to blind an organization to better ways,

The minutes of the meetings of the cooperative's board meeting usually will contain the broad outline of policies if not complete policy statements. A careful study should be made of the cooperative board's minutes over a sufficient time period to locate all policies that the board has established.

#### Look Into The Future

Policy formulation requires that the board of directors, the manager and the employees of the cooperative look into the future. The historical action may call attention to the need for a policy, but the policy formulated must give direction to future actions. Directors find this segment of policy formulation most challenging and rewarding as it may cause directors to more closely evaluate past, present and future trends and conditions.

#### Each Cooperative Must Have Its Own Policies

A great danger in formulating policies for the cooperative is the temptation to "borrow" the policy from another cooperative. Each cooperative is unique unto itself. It has different members, different board members, different managers, different employees, different facilities, different resources and a different financial situation to name only a few of the differences. The board of directors needs to formulate and adopt policies that will best serve their own cooperative and its members.

#### Policies Are Easy To Write

The style or form in which the policy is written is not important. Policies may be prepared in any way as long as those involved understand

them. Policies should always be discussed by all those involved or affected before they are put into effect to insure understanding.

The method of first stating the policy and then adding a section called a procedure has been beneficial to many cooperative boards of directors. In this approach, a policy tells what and a procedure tells how. The procedure tells how to carry out what the policy says should be done.

The policy states that the employees are entitled to two weeks of vacation with pay at the end of a year's service. The procedure section specifies that the manager shall issue vacation schedule forms to department heads on May 1; that each employee's vacation time, chosen in accordance with seniority, and with due regard for the department's work schedule, shall be entered; that the form shall be returned to the manager by May 15 and forwarded to the payroll department; and that the payroll department will issue vacation pay checks to employees in advance of vacation in accordance with the schedule.

Regardless of the method used, each policy should be dated and/or numbered to permit readers to know which is the current policy.

#### Examples Of Policy Statements With Procedures

BESTA COOPERATIVE  
Policy Bulletin No. 14  
January 29, Exhibit A

Subject: Contributions

Policy:

The Besta Cooperative may make contributions to recognized, tax exempt, charitable and educational organizations operating and soliciting funds within Besta territory. The total annual amount of such contributions shall not exceed the amount set forth in the operating budget and approved by the board of directors.

Responsibility: Manager

Procedure:

1. The general manager will include in the operating budget for the year an item, not to exceed one percent of the total operating budget, for contributions.
2. The total amount requested in the operating budget will be arrived at after consideration of previous experience, donation practices of comparable businesses, financial condition of the organization, and anticipated requests for contribution.

3. The item for contributions will be broken down to show names and addresses of organizations from which a request for a donation is anticipated, and proposed amount of contribution.
4. All requests for contributions will be forwarded to the general manager who will determine on the basis of this policy whether or not a contribution will be made.
5. If the general manager decides to make a contribution, a request for a check will be issued and the presentation of the check will be made by letter or in person whichever is appropriate.
6. If it is decided not to make a contribution, an appropriate letter explaining reasons for refusal will be sent to the organization from the assistant manager with a copy to the chairman of the board.
7. The general manager will submit a report of contributions to the board monthly, noting particularly any variances from policy and recommending any need for revisions in policy.
8. The chairman of the board will include in his annual report to members a comment about the organization's policy and practice with respect to contributions during the previous year.

BESTA COOPERATIVE  
Policy Bulletin No. 15  
January 30, Exhibit B

Subject: Sick Leave

Policy:

All employees of Besta Cooperative may earn one and one-half days of sick leave at full pay each month employed full-time, part-time, etc.

Sick leave may be accumulated to a total of thirty (30) days. Sundays will not be counted when computing sick leave taken.

Procedure:

To qualify for sick leave benefits, the employee must either be confined by a doctor, or his absence must be approved by the general manager. In the absence of the manager, the assistant manager can make such approval.

The general manager may suggest or recommend that sick leave deductions be waived in the event an employee desires to make up lost time. This action is only possible when the lost time of the employee has not caused the firm financial loss.

The manager or acting manager will have final decision concerning waiver of sick leave time.

BESTA COOPERATIVE  
Policy Bulletin No. 16  
January 31, Exhibit C

Subject: Sales

Policy:

The Besta Cooperative will guarantee the performance of products and services handled by the firm, providing the products and services are used by members in accordance with the instructions provided by the manufacturer and the employee dispensing the product or service.

Procedure:

All employees should familiarize themselves with the various guarantees. The employee dispensing the products can make adjustments based on the guarantee in cases involving not more than \$15. In cases involving more than this sum, the manager should be consulted, familiarized with the facts, and asked to approve the adjustment.

All adjustments based on guarantees must be reported to the manager. This report must be in writing on the forms provided.

Keep Policies Current and Workable

It is important that the board of directors knows whether policies are actually accomplishing what they are designed to do and whether they are being followed by all of those to whom they apply.

Those cooperatives that are progressive enough to have formulated its policies clearly and disseminated them so that they can be understood and applied have not finished their job unless they have provided the means for periodically evaluating all its policies. All policies should be evaluated at least once a year to determine if they are needed and if they are being used or need to be rewritten.

An important reason for writing policies is that a written policy constitutes a reference that can be checked for meaning, consistency of application and necessity for exceptions.

The cooperative's board of directors must continually evaluate the results a policy is accomplishing to determine if the accomplished results are the same as the intended results.



The proof of a policy is that it works. If the desired results are not being obtained, the policy must be evaluated promptly.

If the existing policy is being frequently flouted, this is an indication that it is not working in the best interest of the organization. A policy that is being flouted is worse than no policy at all. Frequent requests for exceptions also indicate that a policy needs to be revised. Even though some interpretation is always called for in administering a policy, frequent exceptions to a policy usually mean that a related policy plugging up the loopholes is called for or that the policy is inadequate and should be withdrawn or revised.

### Conclusions

The significance of board policies is that they permit decisions to be made in advance, that they assure consistency, and that they free managers and employees from the necessity of spending large amounts of time solving the same problems or seeking answers to recurring situations.

Policies must be well thought out, clearly written and made available to and explained to those whom they affect. Policies must not be regarded as "sacred" once they are issued but must be continuously evaluated and revised as the need arises.

The authoritarian board of directors or manager that uses the word "policy" as a smoke screen to hide their unwillingness to think, to make a decision, to grant an exception, or to consider a better method, is old fashioned. The purpose of policies is to make possible a good job of managing and a high level of management effectiveness.

### Policy Requirements

1st Step	Think 'em up	Formulate
2nd Step	Decide 'em	Determine
3rd Step	Use 'em	Execute
4th Step	Check Conformity	Audit
5th Step	Check Effectiveness	Appraise